



STATE OF CALIFORNIA
FRANCHISE TAX BOARD
PO BOX 942857
SACRAMENTO CA 94257-0500

Return Information Notice Explanation

To better understand our adjustments to the return, match the paragraph code on the enclosed notice with the codes below. If you disagree with the adjustments, contact the Franchise Tax Board (FTB). If you write to us, include a copy of the enclosed notice, your name, address, entity identification number and daytime telephone number. If you call us, please have a copy of your California tax return and the enclosed notice available for reference.

YOUR RIGHTS AS A TAXPAYER

Our goal at FTB is to make certain that your rights are protected so that you will have the highest confidence in the integrity, efficiency and fairness of the state tax system. FTB Pub. 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayer Advocate Program, and how you can request written advice from us. You can order FTB Pub. 4058 by writing or calling us.

ELECTRONIC FUNDS TRANSFER (EFT)

We will notify a corporation that all future payments must be made by EFT if either of these conditions is met: a corporation remits an estimated tax payment or extension payment in excess of \$20,000 or the total tax liability is in excess of \$80,000 in any income year beginning on or after January 1, 1995. Payments must then be remitted by EFT rather than by paper checks. Corporations who are not required to pay through EFT may do so on a voluntary basis.

EXPLANATORY PARAGRAPHS

- AA** We revised the tax shown on the return for one of the following reasons: (a) we found a computation error; (b) the wrong tax rate was used; or (c) the corporation is subject to the minimum franchise tax. If you have tax credits which you are carrying over to a subsequent year, please revise the amount accordingly.
- AB** The minimum franchise tax must be paid for each income year even though the corporation is inactive or operating at a loss.
- AC** Corporations doing business in the State of California are subject to the minimum franchise tax.
- AD** Corporations subject to tax under Chapter 3 of the Bank and Corporation Tax Law are not subject to the minimum franchise tax.
- AE** The minimum franchise tax is due until the certificate to wind up and dissolve is filed with the Office of the Secretary of State. For more information, get FTB Pub. 1038, Guide for Corporations Dissolving, Surrendering (Withdrawing) or Merging.
- AF** Every corporation that is included in a combined report and is either qualified to do business, or is doing business in California, must pay the minimum franchise tax. If a corporation is qualified to do business in California but is inactive, it must still pay the minimum franchise tax.
- AG** Our records do not show that the corporation has been granted exempt status from the FTB. Therefore, the corporation is subject to the franchise or income tax.
- AH** The incorrect financial tax rate was used on the return.
- AI** Corporations electing S corporation treatment are subject to tax at the rate of 1.5 percent of the net income, but not less than the minimum franchise tax.

For more information, call the FTB EFT Unit at (916) 845-4025, or get FTB Pub. 3817, Electronic Funds Transfer Program Information Guide.

ASSISTANCE

Our general toll-free phone service is available from 7 a.m. until 8 p.m. Monday – Friday, except state holidays. The best times to call are before 10 a.m. and after 6 p.m. Service is also available from 6 a.m. until midnight, Monday – Friday and 7 a.m. until 8 p.m. on Saturdays from January 1 to April 15.

From within the United States, call (800) 852-5711
From outside the United States, call (not toll-free) (916) 845-6500
Internet website address: <http://www.ftb.ca.gov>

HEARING IMPAIRED

Toll-free service is provided for the hearing impaired with a Telecommunications Device (TDD). Call (800) 822-6268. FTB will also accept TDD calls for, and relay messages to, any California agency.

ASISTENCIA BILINGÜE EN ESPAÑOL

Para obtener servicios en Español y asistencia para completar su declaración de impuestos/formularios, lláme al número de teléfono (anotado arriba) que le corresponde.

- AJ** Limited partnerships, limited liability partnerships and real estate mortgage investment conduits are required to pay an amount equal to the minimum franchise tax, but are not subject to franchise or income tax.
- AK** For income years beginning on or after January 1, 1990, credit unions with gross receipts solely from membership income are not required to pay the minimum franchise tax.
- AL** A corporation is subject to Chapters 2 and 3 of the Bank and Corporation Tax Law until the corporation files the CERTIFICATE OF DISSOLUTION with the Office of the Secretary of State. This applies even if the corporation is inactive or operating at a loss. For more information, get FTB Pub. 1038, Guide for Corporations Dissolving, Surrendering (Withdrawing) or Merging.
- AM** The corporation has been classified as an insurance company. Therefore, it is no longer subject to the franchise tax provisions of the Bank and Corporation Tax Law.
- AN** Every Qualified Subchapter S subsidiary is subject to the minimum franchise tax.
- AO** Every Financial Asset Securitization Investment Trust (FASIT) is subject to the minimum franchise tax.
- AP** The wrong tax rate was used.
- AQ** The general tax rate was changed from 9.3 percent to 8.84 percent for income years beginning in 1997 and later.
- AR** We revised the tax shown on the return. The minimum tax is \$800 unless you indicated you met the definition of a qualified new corporation. A qualified new corporation is a corporation that:
 - incorporates on or after January 1, 1999,
 - reasonably estimates that it will have gross receipts, less returns and allowances, reportable to California of less than \$1 million,
 - reasonably estimates it will not have a tax liability that exceeds the minimum franchise tax of \$800,

- begins business operation at or after the time of its incorporation, and
- did not begin business as a single proprietorship, partnership or other form of business entity prior to its incorporation.

The minimum tax for the second taxable year of a qualified new corporation is \$500.

- BA** We revised the balance shown on the return for one of the following reasons: (a) we found a computation error; or (b) the tax may not be less than the minimum franchise tax.
- BB** Tax credits claimed on the return may not reduce the tax below the minimum franchise tax.
- BC** The tax credits claimed on the return may not exceed the statutory maximum amount allowed.
- BD** The tax credits claimed on the return have been revised. We were unable to locate the schedules and identify the type of tax credit.
- CA** We revised the total tax shown on the return because the corporation made a computation error in adding the alternative minimum tax, tax from Schedule D, excess net passive income tax, or preference tax to the balance due.
- DA** We revised the prior year overpayment shown on the return because an incorrect amount was claimed.
- DB** Estimated tax payments or credits applied to a particular income year in accordance with the corporation's instructions may not be refunded or transferred to a different income year until the return has been filed for that year.
- DC** We have no record of a prior year credit.
- DD** All or a portion of the amount claimed on the return as an overpayment from the prior year was previously refunded.
- DE** Credit pending due to a claim for refund may not be taken for any year until FTB allows the claim.
- EA** We revised the estimated tax payments shown on the return because the amount shown was incorrect.
- EB** The minimum tax paid at the date of incorporation is for the privilege of doing business in the State of California and may not be claimed as an estimated tax payment.
- EC** The amount claimed as a credit transferred from your water's-edge election account to the general corporation account was incorrect.
- ED** The amount claimed as a credit from your water's-edge election account may not be transferred to the general corporation account until a water's-edge fee return has been filed.
- EE** The amount claimed as tax withheld at source has been disallowed for failure to attach Form 591, Form 594 or other documentation substantiating the amount claimed. If a copy of the required form is furnished, we may allow the amount of credit claimed.
- EF** We credited the corporation with payments made by subsidiaries included in the combined report.
- FA** The amount claimed as an extension payment was incorrect.
- GA** We revised the dissolving/withdrawing credit shown on the return for one of the following reasons: (a) the dissolving/withdrawing credit may not be claimed if the corporation incorporated or qualified after December 31, 1971; or (b) the corporation must be formally dissolved to claim the dissolving/withdrawing credit. The records of the Office of the Secretary of State indicate the corporation is not formally dissolved.

- HA** We revised the tax due shown on the return to correct a computation error.
- HB** The corporation made an error in transferring figures from Schedule J to side 1 of the return or in computing the amount of look-back tax adjustment.
- IA** We revised the overpayment on the return to correct a computation error.
- JA** We revised the credit to next year's estimated tax for one of the following reasons: (a) we found a computation error; (b) we made a change to the total tax; or (c) we transferred the minimum amount required for the first estimate due on the subsequent year.
- JB** We applied part or all of the overpayment from the return to the current year estimated tax payments. If the corporation does not want the overpayment applied, please contact us. Please note that if the credit is refunded, the corporation may be subject to an estimated tax penalty when the return is filed.
- KA** We revised the refund amount on the return based on the amount of payments and/or credits available.
- KB** We may not allow a refund or credit beyond: (a) four years after the due date of the original return; or (b) one year after the date of the payment.
- KC** The amount of refund claimed on the return has been partially or completely applied to a prior balance(s) due.
- LA** We revised the total payments on the return because the amount shown was incorrect.
- MA** We have revised your commencing tax prepayment. When you incorporated with the Secretary of State you paid the commencing tax prepayment. The payment is \$800 unless you indicated you met the definition of a qualified new corporation. Effective for income years beginning in 1997 or 1998, the commencing tax prepayment for a qualified new corporation is \$600. A qualified new corporation for those years is defined as having:
- reasonably estimated its gross receipts, less returns and allowances, reportable to California of \$1 million or less for the first income year,
 - reasonably estimated it will have a California tax liability that does not exceed \$800, based upon its income, for the first income year,
 - an incorporation date on or after January 1, 1997, and before January 1, 1999, and
 - less than fifty percent of its stock owned by another corporation.

Effective for income years beginning on or after January 1, 1999, the commencing tax prepayment will be \$300 for a qualified new corporation. A qualified new corporation is a corporation that:

- begins operation at or after the time of its incorporation,
- has an incorporation date on or after January 1, 1999,
- reasonably estimated its gross receipts, less returns and allowances, reportable to California will be \$1 million or less for the first income year,
- reasonably estimated it will have a California tax liability that does not exceed \$800, based upon its income for the first income year,
- has less than fifty percent of its stock owned by another corporation, and
- did not begin business prior to its incorporation as a single proprietorship, partnership or other form of business entity.

- MB** When you incorporated with the Secretary of State you paid a commencing tax prepayment of \$600 as a qualified new corporation. See paragraph **MA** for the definition of a qualified new corporation. As the corporation does not meet the requirement of a qualified new corporation its commencing tax prepayment to the Secretary of State should have been \$800.
- MC** Under California law, the minimum tax of \$800 must be paid by the first estimate installment date for all corporations doing business in California.
- MD** The information you provided on the corporation's return indicates the corporation is a qualified new corporation. See paragraph **MA** for the definition of a qualified new corporation. A qualified new corporation is only required to pay \$600 to the Secretary of State when it incorporates. You paid \$800.
- ME** We are denying your request for a \$200 refund of the corporation's commencing tax prepayment made to the Secretary of State when the corporation incorporated. The corporation does not meet the definition of a qualified new corporation. See paragraph **MA** for the definition of a qualified new corporation.
- MF** When you incorporated with the Secretary of State you paid a commencing tax prepayment of \$300 as a qualified new corporation. See paragraph **MA** for the definition of a qualified new corporation. As the corporation does not meet the definition of a qualified new corporation its commencing tax prepayment to the Secretary of State should have been \$800.
- MG** The information you provided on the corporation's return indicates the corporation is a qualified new corporation. See paragraph **MA** for the definition of a qualified new corporation. A qualified new corporation is only required to pay \$300 to the Secretary of State when it incorporates. You paid \$800.
- MH** We are denying your request for a \$500 refund of the corporation's commencing tax prepayment made to the Secretary of State when the corporation incorporated. The corporation does not meet the definition of a qualified new corporation. See paragraph **MA** for the definition of a qualified new corporation.
- NB** Your application for exempt status was approved. This refund is being issued as a result of that approval.
- NC** The filing fee is not required from an organization exempt under 23701d of the California Revenue and Taxation Code. These organizations are (a) an exclusively religious organization, (b) an organization that is controlled by a religious organization, (c) a school, or (d) a public charity.
- ND** Filing fees are not required if gross receipts are normally not more than \$25,000.
- NE** Political action organizations are exempted from the payment of the minimum franchise tax.
- NF** This organization is not required to file Form 199. Therefore, this organization is not required to pay the filing fee associated with the return.
- PB** A penalty has been assessed for the period the estimated tax was underpaid.
- PC** No estimate penalty is due for the income year shown on the notice.
- VA** All or a portion of the total overpayment has been offset to other liabilities existing on this corporation's account. If the corporation disagrees with our action in applying all or part of the overpayment to another liability, the corporation may file a claim for refund. The claim for refund should be filed for the year to which we applied the overpayment. If the overpayment did not completely satisfy the liability for that year, the corporation must first pay the balance due. The claim should state, in detail, the reasons why the corporation disagrees with our action.
- WA** All or a portion of the total overpayment has been offset to other liabilities existing on the account of a related corporation(s). If the corporation disagrees with our action in applying all or part of the overpayment to another liability the corporation may file a claim for refund. The claim for refund should be filed for the year to which we applied the overpayment. If the overpayment did not completely satisfy the liability for that year, the corporation must first pay the balance due. The claim should state, in detail, the reasons why the corporation disagrees with our action.
- XA** The State Board of Equalization has notified FTB that the business entity has an outstanding liability with that department. The FTB refund has been offset against that liability. Refer to the enclosed notice for the amount credited to the State Board of Equalization.
- YA** The Employment Development Department has notified FTB that the business entity has an outstanding liability with that department. The FTB refund has been offset against that liability. Refer to the enclosed notice for the amount credited to the Employment Development Department.
- ZB** We processed the return without audit. However, we may propose adjustments to reflect changes due to an audit of the return at a later date.
- ZC** The overpayment is due to duplicate and/or additional payments.
- ZD** If the corporation would like this credit refunded, please return a copy of this notice with a request for refund. Please note, however, that if the credit is refunded, the corporation may be subject to an estimated tax penalty when the return is filed.
- ZE** All or part of the overpayment has been applied to the amount owed on a subsidiary(ies) account.
- ZF** The tax for the year in which a corporation dissolves or withdraws is based on the income for that year plus the income for the preceding income year but cannot be less than the minimum tax.

INTEREST RATES

PERIOD	RATE
07/01/99 AND LATER	7%
01/01/99 — 06/30/99	8%
07/01/95 — 12/31/98	9%
01/01/95 — 06/30/95	8%
07/01/93 — 12/31/94	7%
01/01/93 — 06/30/93	8%
07/01/92 — 12/31/92	9%
07/01/91 — 06/30/92	10%
01/01/90 — 06/30/91	11%
07/01/89 — 12/31/89	12%
10/01/88 — 06/30/89	11%
04/01/88 — 09/30/88	10%
01/01/88 — 03/31/88	11%
10/01/87 — 12/31/87	10%
01/01/87 — 09/30/87	8%
07/01/86 — 12/31/86	9%
01/01/86 — 06/30/86	10%
07/01/85 — 12/31/85	11%
01/01/85 — 06/30/85	13%
07/01/83 — 12/31/84	11%
03/01/83 — 06/30/83	16%
01/01/83 — 02/28/83	14%
05/27/82 — 12/31/82	18%
01/01/76 — 05/26/82	12%
Prior to 01/01/76	6%

ADDITIONAL 2% INTEREST

Effective January 1, 1992, C corporations may be subject to 2% additional interest on underpayments if the cumulative unpaid tax for the taxable period exceeds \$100,000. To avoid incurring the 2% additional interest, the corporation must pay the total underpayment amount within 30 days of notice. If assessed, the 2% additional interest will be computed on any unpaid amount for that taxable period.

Regarding the 2% additional interest, California Revenue and Taxation Code Section 19521 conforms to Internal Revenue Code Section 6621 with modifications.

INTEREST COMPOUNDED

Interest rates are compounded daily effective July 1, 1983, for all purposes except the computation of additions to tax arising from the underpayment of estimated tax (estimated tax penalty).

INTEREST ON TAX

Interest is charged on unpaid tax from the original due date of the return until the date of payment.

INTEREST ON PENALTY Interest on penalties for failure to file a return by the due date of the return (delinquent penalty), failure to pay tax by the due date of the return (underpayment penalty), substantial understatement of tax liability attributable to abusive tax shelters, and failure to make a reasonable attempt to obey the tax laws, is computed from the due date of the return (including extensions) to the date of payment.

Interest on the penalty for failure to file a Domestic Disclosure Spreadsheet (DDS) by the due date is computed from the due date of the DDS (including extensions) to the date of payment. Interest on all other penalties is computed from the date of notice until the date of payment.

FEES AND PENALTIES

Estimated Tax Penalty

A penalty is imposed if a corporation fails to pay, pays late or underpays an installment of estimated tax. Get form FTB 5806, Underpayment of Estimated Tax by Corporations, to determine both the underpayment and the amount of the penalty.

Delinquent Penalty

A penalty is imposed if a return is not filed on or before the extended due date. The penalty is 5% per month or part of a month, not to exceed 25% of the tax due after timely payments and credits. The penalty for failure to file a timely exempt information return is \$5 for each month the return is late, up to a \$40 maximum. The penalty is imposed from the original due date of the return.

Late Filing Penalty

A penalty is imposed if a partnership return is not filed by the original or extended due date. The penalty is \$10 per partner for each month or part of a month the return is late up to a maximum of five months.

Underpayment Penalty

A penalty is imposed if tax is not paid by the original return due date. The penalty is 5% of the tax unpaid as of the original return due date. The underpayment penalty will not be charged on additional tax that resulted from an error on the return if full payment for the total amount due is paid within fifteen days of the date of notice and demand.

Monthly Penalty

A penalty is imposed if tax remains unpaid after the original return due date. The penalty is 0.5% per month or part of a month on the unpaid tax, up to a maximum of 40 months. The monthly penalty will not be charged on additional tax that resulted from an error on the return if full payment for the total amount due is paid within fifteen days of the date of notice and demand.

Filing Fee

If the \$10 filing fee required to be paid by organizations that file Form 199 is not paid on or before the original or extended due date, a \$15 fee is charged.

Electronic Funds Transfer (EFT) Penalty

If you meet the requirements of the EFT program, **all payments regardless of the income year or amount, must be made through EFT.** Payment by other means will result in a penalty of 10% of the amount paid. Get FTB Pub. 3817 for more information or call the FTB at (800) 852-2753.

Dishonored Payment Penalty

FTB will impose a penalty if a payment remitted by check, money order, or electronic funds transfer is not honored for payment by the financial institution on which it is drawn. The penalty is 2% of the amount of the payment. However, if the payment is \$750 or less, the penalty is \$15 or the amount of the payment, whichever is less.

Cost Recovery Fee

The California Revenue and Taxation Code requires FTB to charge a fee on entities that require collection or enforcement action to resolve filing and payment delinquencies. The fees reimburse FTB for the cost of taking these actions. Only those entities that fail to respond to a demand to file and continue to fail to pay the amount due after notice for payment will be charged a fee.

The fee amount changes each year to reflect the actual costs of collection and enforcement. The California Legislature sets the fee. For information regarding the current fee, call Fast Answers About State Taxes (F.A.S.T.) from within the United States at (800) 338-0505, or from outside the United States (not toll free) at (916) 845-6600. Select **general tax information**, follow the recorded instructions and enter code **003** for the filing enforcement fee or code **004** for the collection fee.

Other Penalties/Fees

For more information about penalties and fees refer to California Revenue and Taxation Code Part 10.2, Division 2, Chapter 4, Article 7.